

# Vanke - H (2202 HK)

## Best of Top Three

**SUMMARY.** Driven by the growth of delivery GFA and ASP, net profit advanced by 29.8% to RMB11.8bn in 1H19. We estimate end-20 NAV to be HK\$44.87. As a result, we raise TP from HK\$35.48 to HK\$35.90. Maintain BUY recommendation.

- **Net profit surged 30% in 1H19.** Driven by 20.7% growth in delivery GFA and 10.7% growth in ASP, revenue increased by 32.9% to RMB139.3bn in 1H19. GM improved from 33.7% in 1H18 to 36.2% in 1H19. SG&A expenses to revenue ratio stayed flat at 8.0%. So net profit increased by 29.8% to RMB11.8bn in 1H19. As at Jun 2019, properties pre-sold and unbooked amounted to RMB621.6bn.
- **Contracted sales grew by 10% in 1H19.** Contracted sales amount and area surged by 9.6% to RMB334bn and 5.6% to 21.50mn sq m in 1H19, respectively. In terms of geographical breakdown, sales amount in Shanghai Region and Central & Western Region accounted for 35.9% and 22.1% of total contracted sales in 1H19. Meanwhile, small and medium flats under 144 sq m accounted for 91% of residential sold in 1H19. Majority buyers were first time buyers or first time upgraders. In 1H19, 10.6mn sq m of properties were completed, up 15.6% YoY, and represented about 34.5% of full year plan.
- **Acquired 13.73mn sq m land bank in 1H19.** In 1H19, Vanke acquired 54 plots of land with total GFA of 13.73mn sq m (or attributable GFA of 9.42mn sq m) in 1H19. As at Jun 2019, total and attributable land bank amounted to 153mn sq m and 92.93mn sq m, respectively. Moreover, Vanke participated in several urban redevelopment projects with aggregate attributable GFA of 3.41mn sq m. Current land bank is sufficient for next three years' development.
- **Robust growth in rental and property management.** Rental income and revenue for property management increased by 82.1% to RMB2.09bn and 28.4% to RMB5.28bn in 1H19, respectively. As at Jun 2019, 82,000 leasing apartments in 35 cities were in operation. Furthermore, more than 13.5mn sq m of retail property were under Vanke's management, of which 9.15mn sq m of retail projects (6.43mn sq m in operation) were under SCPG management.
- **Raise TP to HK\$35.9.** Net gearing ratio was 35.0% as at Jun 2019. The balance sheet was healthy. We fine tune our earnings forecast and adjust upwards slightly. In addition, we estimate end-20 NAV forecast to be HK\$44.87. As a result, we raise TP from HK\$35.48 to HK\$35.90, representing a 20% discount to NAV. Upside potential is 28.9%. Reiterate BUY recommendation.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	237,345	297,083	395,725	457,827	506,463
YoY growth (%)	3.7	25.2	33.2	15.7	10.6
Net income (RMB mn)	28,052	33,773	40,828	47,911	53,742
EPS (RMB)	2.54	3.06	3.63	4.24	4.76
YoY growth (%)	33.4	20.4	18.8	16.7	12.2
P/E (x)	9.8	8.2	6.9	5.9	5.3
P/B (x)	2.1	1.8	1.5	1.3	1.1
Yield (%)	2.9	3.4	3.9	4.6	5.2
ROE (%)	21.1	21.7	21.5	21.3	20.5
Net gearing (%)	8.8	30.9	25.6	29.7	22.2

Source: Company data, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$35.90
(Previous TP	HK\$35.48)
Up/downside	+28.9%
Current Price	HK\$27.85

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#### Stock Data

Mkt Cap (HK\$ mn)	337,405
Avg 3 mths t/o (HK\$ mn)	230
52w High/Low (HK\$)	35.60/21.50
Total Issued Shares (mn)	1,578(H) 9,724(A)

Source: Bloomberg

#### Shareholding Structure

Shenzhen Metro	28.69%
Jushenghua	13.57%
AnBang	6.57%

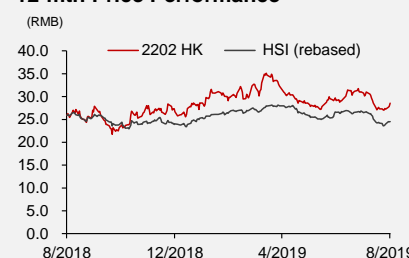
Source: Company data, CMBIS

#### Share Performance

	Absolute	Relative
1-mth	-10.3%	-1.6%
3-mth	-2.6%	3.2%
6-mth	-6.7%	1.4%
12-mth	11.4%	17.2%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: PricewaterhouseCoopers

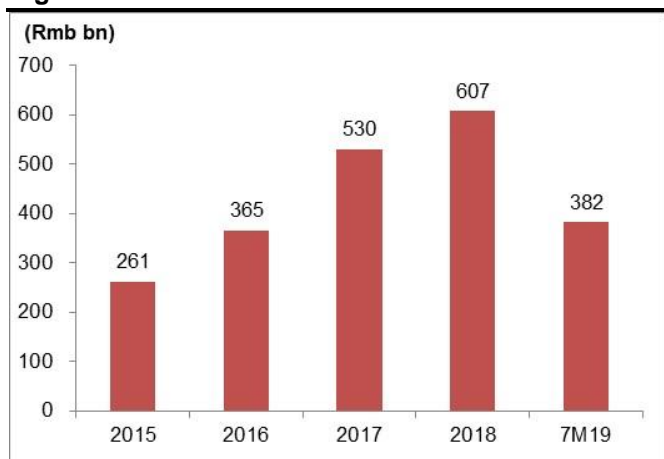
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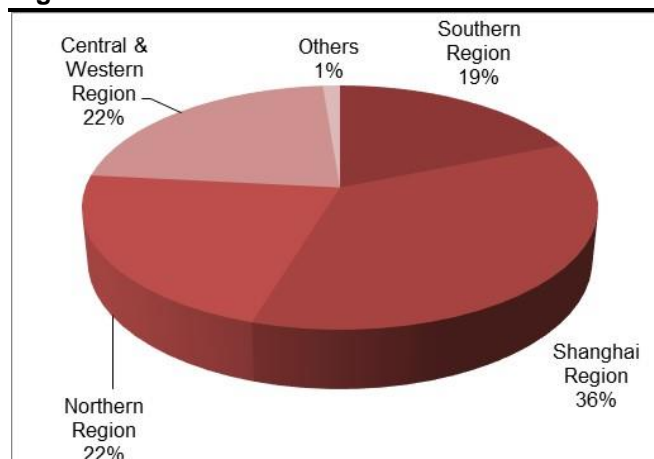
**Figure 1: 2019 interim results**

	1H19 (Rmb mn)	1H18 (Rmb mn)	Change (%)	Remark
<b>Turnover</b>	<b>139,320</b>	<b>104,859</b>	<b>32.9%</b>	
Property development	128,472	98,110	30.9%	21% rise in delivered GFA & 11% rise in recognized ASP in 1H19
Construction	2,672	477	460.0%	
Property services	5,283	4,114	28.4%	
Rental	2,094	1,150	82.1%	
Other business	800	1,008	-20.7%	
Cost of Sales	(88,833)	(69,488)	27.8%	
<b>Gross Profit</b>	<b>50,487</b>	<b>35,371</b>	<b>42.7%</b>	GM improved from 33.7% in 1H18 to 36.2% in 1H19
Other operating income	2,411	1,688	42.8%	
Distribution Cost	(3,187)	(2,808)	13.5%	Selling expenses/revenue narrowed 0.4ppt to 2.3% in 1H19
Administrative Expenses	(7,040)	(4,731)	48.8%	Admin expenses/revenue expanded 0.6ppt to 4.5% in 1H19
Other Expenses	(894)	(829)	7.9%	
<b>EBIT</b>	<b>41,778</b>	<b>28,692</b>	<b>45.6%</b>	
Interest Expense	(4,860)	(3,674)	32.3%	
Associated	907	765	18.7%	
Pre-tax Profit	37,825	25,782	46.7%	
Taxation	(18,540)	(12,260)	51.2%	Effective tax rate enlarged by 1.5ppts to 49.0% in 1H19
Profit after Tax	19,286	13,523	42.6%	
Minority	(7,444)	(4,399)	69.2%	
<b>Net Profit</b>	<b>11,842</b>	<b>9,124</b>	<b>29.8%</b>	

Source: Company data

**Figure 2: Contracted sales**

Source: Company data

**Figure 3: Contracted sales breakdown in 1H19**

Source: Company data

**Figure 4: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	395,725	457,827	506,463	412,073	467,727	512,899	-4.0%	-2.1%	-1.3%
Gross Profit	134,672	147,014	162,440	124,725	141,435	154,966	8.0%	3.9%	4.8%
EBIT	111,155	120,928	135,500	100,245	115,136	127,931	10.9%	5.0%	5.9%
Net profit	40,828	47,911	53,742	39,517	47,628	52,644	3.3%	0.6%	2.1%
EPS (RMB)	3.63	4.24	4.76	3.52	4.21	4.66	3.2%	0.7%	2.0%
Gross Margin	34.0%	32.1%	32.1%	30.3%	30.2%	30.2%	3.8 ppt	1.9 ppt	1.9 ppt
EBIT Margin	28.1%	26.4%	26.8%	24.3%	24.6%	24.9%	3.8 ppt	1.8 ppt	1.8 ppt
Net Margin	10.3%	10.5%	10.6%	9.6%	10.2%	10.3%	0.7 ppt	0.3 ppt	0.3 ppt

Source: CMBIS estimate

**Figure 5: End-20 NAV estimate**

	(Rmb mn)	NAV/share	NAV/share	% of NAV	Remark
		(Rmb)	(HK\$)		
Completed projects	10,313	0.91	1.02	2%	WACC of 11.8%
Under construction	204,791	18.12	20.20	45%	
Future development	324,374	28.70	32.00	71%	
Listed securities	5,826	0.52	0.57	1%	Market value
Gross amount	545,304	48.25	53.79	120%	
Net debt	(90,399)	(8.00)	(8.92)	-20%	Dec 2020
NAV	454,905	40.25	44.87	100%	

Source: CMBIS estimate

## Financial Summary

### Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>237,345</b>	<b>297,083</b>	<b>395,725</b>	<b>457,827</b>	<b>506,463</b>
Property development	225,761	278,083	371,298	427,413	470,226
Construction	845	3,411	4,162	5,077	6,194
Property services	7,199	9,796	12,734	16,300	19,560
Other business	3,538	5,793	7,531	9,037	10,483
Cost of sales	(160,621)	(187,131)	(261,053)	(310,813)	(344,023)
<b>Gross profit</b>	<b>76,723</b>	<b>109,952</b>	<b>134,672</b>	<b>147,014</b>	<b>162,440</b>
Other income and gains	4,538	3,585	5,371	5,504	5,980
Distribution expenses	(6,262)	(7,868)	(9,893)	(10,988)	(11,649)
Administrative expenses	(9,633)	(14,590)	(17,016)	(18,313)	(18,739)
Other expenses	(1,193)	(2,113)	(1,979)	(2,289)	(2,532)
<b>Operating profit</b>	<b>64,173</b>	<b>88,966</b>	<b>111,155</b>	<b>120,928</b>	<b>135,500</b>
Finance expenses	(4,061)	(8,181)	(8,622)	(8,499)	(8,926)
Associates/JV	4,569	6,280	6,500	7,780	8,240
Exceptional	0	0	0	0	0
<b>Pre-tax profit</b>	<b>64,682</b>	<b>87,065</b>	<b>109,033</b>	<b>120,209</b>	<b>134,814</b>
Profits tax	(27,473)	(37,793)	(50,405)	(53,799)	(59,822)
Minority interest	(9,157)	(15,500)	(17,800)	(18,500)	(21,250)
Perpetual	0	0	0	0	0
<b>Net profit</b>	<b>28,052</b>	<b>33,773</b>	<b>40,828</b>	<b>47,911</b>	<b>53,742</b>
<b>Core profit</b>	<b>28,052</b>	<b>33,773</b>	<b>40,828</b>	<b>47,911</b>	<b>53,742</b>

### Cash flow summary

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>EBIT</b>	<b>64,173</b>	<b>88,966</b>	<b>111,155</b>	<b>120,928</b>	<b>135,500</b>
Depreciation and amortization	1,929	2,922	4,529	5,500	5,680
Change in working capital	45,230	(21,185)	(63,577)	(99,000)	(86,000)
Income tax paid	(26,514)	(36,592)	(53,771)	(51,679)	(58,192)
Others	(2,496)	(493)	13,770	27,123	44,914
<b>Net cash from operating</b>	<b>82,323</b>	<b>33,618</b>	<b>12,106</b>	<b>2,872</b>	<b>41,902</b>
Capex	(41,043)	(18,486)	(9,384)	(6,400)	(6,580)
Associates/JV	(24,036)	(45,840)	6,117	(9,200)	(6,600)
Other	13,466	(3,038)	3,051	3,187	0
<b>Net cash from investing</b>	<b>(51,613)</b>	<b>(67,364)</b>	<b>(215)</b>	<b>(12,413)</b>	<b>(13,180)</b>
Equity raised	0	0	6,691	0	0
Change of Debts	63,942	61,181	(18,208)	11,000	14,000
Dividend paid	(19,134)	(40,249)	(11,812)	(13,563)	(16,049)
Other	10,457	23,866	0	0	0
<b>Net cash from financing</b>	<b>55,265</b>	<b>44,798</b>	<b>(23,329)</b>	<b>(2,563)</b>	<b>(2,049)</b>
Net change in cash	85,974	11,051	(11,438)	(12,103)	26,673
Cash at the beginning	79,490	164,326	175,668	164,480	152,627
Exchange difference	(1,139)	291	250	250	250
<b>Cash at the end</b>	<b>164,326</b>	<b>175,668</b>	<b>164,480</b>	<b>152,627</b>	<b>179,550</b>
Pledged deposit	9,795	12,749	10,974	10,974	10,974
Cash at BS	174,121	188,417	175,454	163,601	190,524

### Balance sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19A	FY20A	FY21A
<b>Non-current assets</b>	<b>147,794</b>	<b>233,508</b>	<b>278,350</b>	<b>286,250</b>	<b>293,250</b>
Fixed asset	10,735	22,645	27,500	28,400	29,300
Investment properties	17,046	25,898	59,400	60,800	62,100
Associates/JV	81,224	129,528	132,000	140,000	146,000
Intangible assets	1,096	1,015	850	850	850
Other non-current assets	37,693	54,421	58,600	56,200	55,000
<b>Current assets</b>	<b>1,017,64</b>	<b>1,295,15</b>	<b>1,370,45</b>	<b>1,488,80</b>	<b>1,632,32</b>
Cash	174,121	188,417	175,454	163,601	190,524
Account receivable	238,405	331,839	343,000	362,000	388,000
Inventories	597,487	754,310	840,000	950,000	1,040,000
Other current assets	7,632	20,590	12,000	13,200	13,800
<b>Current liabilities</b>	<b>847,355</b>	<b>1,121,91</b>	<b>1,206,00</b>	<b>1,273,00</b>	<b>1,362,50</b>
Borrowings	62,273	93,183	68,000	60,000	58,000
Trade and other payables	352,677	486,726	520,000	550,000	580,000
Contract liabilities	407,706	504,711	580,000	623,000	683,000
Deferred taxation	24,700	37,293	38,000	40,000	41,500
Other current liabilities	0	0	0	0	0
<b>Non-current liabilities</b>	<b>131,410</b>	<b>171,129</b>	<b>178,800</b>	<b>198,120</b>	<b>214,550</b>
Borrowings	128,352	168,024	175,000	194,000	210,000
Other non-current liabilities	3,058	3,105	3,800	4,120	4,550
<b>Shareholders' equity</b>	<b>132,675</b>	<b>155,764</b>	<b>190,004</b>	<b>224,431</b>	<b>262,124</b>
Minority interest	53,999	79,857	74,000	79,500	86,400
Perpetual bond	0	0	0	0	0
Total equity	186,674	235,621	264,004	303,931	348,524

### Key ratios

YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
Property development	95.1	93.6	93.8	93.4	92.8
Construction	0.4	1.1	1.1	1.1	1.2
Property services	3.0	3.3	3.2	3.6	3.9
Other business	1.5	1.9	1.9	2.0	2.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	32.3	37.0	34.0	32.1	32.1
Pre-tax margin	27.0	29.9	28.1	26.4	26.8
Net margin	11.8	11.4	10.3	10.5	10.6
Effective tax rate	42.5	43.4	46.2	44.8	44.4
<b>Balance sheet ratios</b>					
Current ratio (x)	1.2	1.2	1.1	1.2	1.2
Receivable day	366.6	407.7	316.4	288.6	279.6
Payable day	542.4	598.0	479.6	438.5	418.0
Inventory day	1357.7	1471.3	1174.5	1115.6	1103.4
Net gearing ratio (%)	8.8	30.9	25.6	29.7	22.2
<b>Returns (%)</b>					
ROE	21.1	21.7	21.5	21.3	20.5
ROA	3.2	3.2	3.6	3.7	3.9
<b>Per share data</b>					
EPS (RMB)	2.54	3.06	3.63	4.24	4.76
DPS (RMB)	0.90	1.07	1.20	1.42	1.60
BVPS (RMB)	12.02	14.11	16.81	19.86	23.19

Source: Company data, CMBIS estimates

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